



Office of Inspector General U.S. Small Business Administration

February 2012 Update

Business Loans

Texas Man Sentenced on Arson Charges

On February 8, 2012, a Texas man was sentenced to 60 months prison, 36 months supervised release, and ordered to pay approximately \$169,517 in restitution. He had previously pled guilty to one count of conspiracy to commit arson. On August 4, 2011, the subject was indicted on multiple charges relating to arson, and for making a material false statement on an SBA loan application. The investigation disclosed that the man failed to disclose that he had 22 previous arrests before receiving an SBA-guaranteed loan for \$1,724,800 for the construction of a restaurant and a fuel station. This is a joint investigation with the Bureau of Alcohol, Tobacco, Firearms, and Explosives.

Arizona Man Indicted on Bank Fraud, Wire Fraud, and False Loan and Credit Applications

On February 21, 2012, an Arizona man was indicted on three counts of bank fraud, one count of wire fraud, and three counts of false loan and credit applications. The indictment charges that the man falsely obtained two mortgage loans and an SBA loan by using his father's identity. Allegedly, in order to get the loans approved, the subject falsely represented that his father owned various properties and businesses, earned an annual salary of \$110,000, and had large amounts of cash on hand. Further, he allegedly submitted altered bank statements and false rental agreements in conjunction with the loan applications. The total loss relating to the SBA loan is approximately \$2,402,099. This is a joint investigation with the Federal Bureau of Investigation.

Kentucky Man Pleads Guilty to Identity Theft

On February 22, 2012, a Kentucky man pled guilty to one count of bank fraud, one count of presenting a forged security to a lending official, one count of aggravated identity theft, one count of wire fraud, and one count of credit card fraud. The investigation revealed that the man used the identity of a federal air marshal to obtain an SBA loan and multiple credit cards. In addition, the investigation revealed that he deposited a counterfeit check into a federally insured financial institution. This is joint investigation with the United States Secret Service.

Texas Loan Broker Sentenced for Her Role in Bank Fraud Conspiracy

On February 24, 2012, a Texas loan broker was sentenced to 36 months in prison, 36 months supervised release, and ordered to pay restitution of approximately \$8,581,970 for her role in a conspiracy to commit bank fraud. The woman worked directly with 200 borrowers by instructing them on how to prepare their loan paperwork and by obtaining from them the necessary financial records. On 45 of these loan packages, she represented to various financial institutions that the borrowers had made their required cash injections when they had not. She also instructed the borrowers to write checks to her company in the amounts of their required equity injections. She then photocopied and returned the checks to the borrowers and presented the copies at the closings as having been paid. Both she and the borrowers knew the checks would not be cashed, and in most cases, the borrowers did not have the funds in their accounts. For each loan closed, the broker would receive one to three percent of the loan value. To date, approximately \$8 million has been charged off by the financial institutions and the SBA, and an additional \$6.762 million is in liquidation. This is a joint investigation with the FBI.

Maryland Man Pleads Guilty to Bank Fraud and Conspiracy to Commit Bank Fraud

On February 28, 2012, a Maryland man pled guilty to a three-count indictment charging two counts of bank fraud and one count of conspiracy to commit bank fraud. Pursuant to the plea agreement, the man also agreed to forfeit \$1,300,000. The investigation revealed that the subject encouraged prospective borrowers to use the services of another firm to apply for SBA business loans. The man and others submitted SBA loan applications and supporting documentation to loan originators and underwriters on behalf of their clients. The indictment charged that the packages contained fraudulent personal financial statements and/or monthly bank statements that overstated the net worth and equity injection amounts of the borrowers to falsely enhance their creditworthiness. This is a joint investigation with the FBI.

Disaster Loans

Texas Woman Charged with Tampering with a Government Document and Theft of Disaster Benefits

On February 8, 2012, a Texas woman was charged in state court in Harris County, Texas, with three counts of tampering with a government document and one count of theft of disaster benefits. The charges allege that she made false claims to the SBA, the Federal Emergency Management Agency (FEMA), and the Department of Housing and Urban Development (HUD) to obtain approximately \$40,000 in Hurricane Ike disaster benefits.

Louisiana Woman Sentenced for Her Role in a Conspiracy to Commit Wire Fraud

On February 9, 2012, the owner of a Louisiana financial company was sentenced to 18 months in prison, three years supervised release, and ordered to pay restitution of \$126,300, to be paid jointly and severally with her husband. The owner had previously pled guilty to one count of conspiracy to commit wire fraud. The charges involve an SBA loan of \$126,300 that another couple received in order to rebuild or repair their residence, following damage by Hurricane Ike. The borrowers gave power of attorney to the woman to negotiate and finalize their SBA loan. The investigation revealed that the woman and her husband, whose construction company was responsible for completing the repairs, drained the borrowers' bank account without finishing the work on the home. A review of invoices, cancelled checks, and paid receipts submitted to the SBA in support of loan disbursements indicated that the items listed on the invoices had never been purchased and that the cancelled checks were fraudulent.

Government Contracting & Business Development

Former U.S. Army Corps of Engineers Program Manager Pleads Guilty to Bribery

On February 13, 2012, in U.S. District Court for the District of Columbia, a former program manager with the U.S. Army Corps of Engineers pled guilty to one count of bribery of a public official and one count of conspiracy to commit money laundering. The subject also agreed to the forfeiture of \$1,150,000 in US currency, as well as forfeiture of other previously seized monies and goods. In a separate but related hearing on the same date, the president of a technology firm pled guilty to one count of bribery of a public official. He agreed to the forfeiture of \$246,000 in US currency and the forfeiture of real property located in Maryland. The pleas related to a scheme that allegedly involved more than \$20 million in bribes and kickback payments and

the planned steering of a \$780 million government contract. The investigation revealed that the former program manager, a public official, received and accepted things of value from the technology firm in return for funding and approving contracts. The technology firm was an SBA certified 8(a) program participant. This is a joint investigation with the FBI, the Internal Revenue Service, Criminal Investigations (IRS-CI); the U.S. Army Criminal Investigation Division (USACID); the Defense Criminal Investigative Service (DCIS); the U.S. Department of Labor OIG; the General Services Administration (GSA) OIG; and the Department of Veterans Affairs OIG.

Missouri Men Plead Guilty to Criminal Conspiracy

In February 2012, two Missouri men were charged with—and pled guilty to—one count of criminal conspiracy. The investigation revealed a government contracting fraud scheme and the illegal payment of gratuities to a federal official. The first subject was the owner of a contracting firm. The second subject was a silent partner in the contracting firm and owner of a construction company. Both admitted to setting up a “figurehead” service-disabled veteran as the purported president and operator of the contracting firm in order to obtain federal contracts. From 2007 until 2010, the contracting firm misrepresented itself as a qualified Service-Disabled, Veteran-Owned, Small Business (SDVOSB) and obtained approximately \$3.4 million in contracts from the Department of Veterans Affairs (VA). The VA contracts were then funneled to the second man's construction company to perform the work. In addition, the contracting firm owner paid gratuities to a former engineer for the VA, who directed set-aside and sole source contracts to the contracting firm. The owner of the construction company agreed to forfeit \$1,557,439 and a 2011 Jaguar as part of his plea agreement. This is a joint investigation with the Government Services Administration OIG and the VA OIG.

Florida Men Convicted of Conspiracy and Wire Fraud Following Jury Trial

On February 28, 2012, two Florida men were convicted on one count of conspiracy and five counts of wire fraud following a jury trial in US District Court. The jury also determined that the \$9,401,290 obtained as proceeds of their fraud should be forfeited to the United States. The investigation revealed that the men devised a scheme whereby they created a company for the purpose of obtaining a \$100 million small business set-aside language instruction contract with the Department of Defense (DoD). The two used a nominee owner to create the appearance that this company was not affiliated with another business they controlled. Their other business had been the incumbent contractor on the previous DoD

language instruction contract. The men submitted false and misleading information concerning the relationship between the two companies after the affiliation was challenged in the course of a size protest submitted to the SBA Office of Government Contracting. This is a joint investigation with the DCIS.

Agency Management

SBA's Lender Loan Reporting Process has Systemic Reporting Issues and Data Control Weaknesses

On February 23, 2012, the OIG issued a [report](#) that identified systemic issues found during an audit of the SBA's lender loan reporting process. The audit objectives were to determine the adequacy of SBA's controls and oversight over the development, security, and operation of certain information technology systems and processes performed by Colson Services Corporation (Colson). Colson performed certain functions for SBA 7(a) and the 504 loan programs, including processing certain automated transactions and developing new information technology systems.

The OIG found that the SBA did not 1) adequately address systemic data control weaknesses; 2) provide adequate oversight of the First Mortgage Loan Pooling System development; 3) ensure that Colson's operation of SBA systems met federal security requirements; and 4) adequately enforce collection of secondary market late penalty fees. These data control weaknesses resulted in an overstatement of unpaid loan balances. Further, since Colson and SBA systems perform different error checking routines, error correction processes are untimely and labor intensive. This resulted in a 63.5 percent increase in loan error volume from April 2006 to March 2011. Moreover, some SBA systems were also operated without adequate assurance that they met SBA quality standards and federal security requirements.

The OIG made 11 recommendations, the most significant being to: 1) correct loan balances contributing to the subsidy overstatement; 2) collect outstanding late penalty fees; 3) ensure that system development projects adhere to SBA quality standards for systems development projects; and 4) ensure that systems are authorized to operate prior to being put into production.

Peggy E. Gustafson, Inspector General

If you are aware of suspected waste, fraud, or abuse in any SBA program, please report it [online](#) at <http://www.sba.gov/office-of-inspector-general/2662>

Or call the OIG Hotline toll-free, at (800) 767-0385

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